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THE FINANCIAL REVULSION OF 1857.

MR. WALLEY'S ADDRESS

BEFORE THE

AMERICAN STATISTICAL ASSOCIATION,

FEBRUARY 10, 1858.



THE FINANCIAL REVULSION OF 1857.

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A D D R E S S

DELIVERED BEFORE THE

AMERICAN STATISTICAL ASSOCIATION,

AT BOSTON,

FEBRUARY 10, 1858.

BY

SAMUEL HURD WALLEY.

B O S T O N :

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At a meeting of the AMERICAN STATISTICAL ASSOCIATION, February 10, 1858, it was

“ *Voted*, That the thanks of the Association be presented to the Hon. S. H. WALLEY, for his learned and able Address, and that he be requested to furnish a copy for publication.”

J. B. FELT, .SECRETARY.

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ADDRESS.

To the Members of the American Statistical Association :

GENTLEMEN :

At the request of your government, made late in October last, I prepared a paper on the present Financial Revulsion ; but after it was completed, I ascertained that the meeting of the Society would not be held until January. By some mishap, I did not receive the Secretary's notice of the annual meeting, and have been requested to read the paper at a special meeting, called for the purpose. I am quite willing to comply with your request, but must ask you to remember that all financial revulsions not only differ from each other, but vary continually in their distinctive features,—Protean in their forms, and chameleon-like in their ever-changing hues,—so that any discussion of them, while, comet-like, they are actually approaching, or but recently receding, must be comparatively uninteresting, unless listened to while the revulsion is in progress.

The only object of subsequent examination, is to profit by general financial results, when viewed as matter of history.

The subjects discussed in this paper have been variously and ably treated, since this was written,—but I see no reason to change my opinion on any of the topics ; and am happy to find my views confirmed in reference to some suggestions by proposed legislative action, in other States, as well as in our own Commonwealth ; not that these questions are free from perplexity, or that honest and intelligent legislators can always be ex-

pected to find themselves justified for their acts by subsequent results ; indeed, matters of finance form such a net-work, and our relations in this respect to each other as communities and as States are so various and complicated, that a measure which commends itself in the abstract, as right and judicious, may prove unwise and pernicious if undertaken by one State or portion of the community in opposition to others, or even without their coöperation.

Financial Crises, Revulsions, and Panics.

Much time and labor and talent have been expended, often fruitlessly, in the discussion of monetary concerns. Many and very able and learned treatises have been written upon the science of political economy. Successive ages have unfolded new facts, which successive champions have used with more or less ability, as the foundation for new theories as to the true nature and laws which govern that long-sought philosopher's stone, which, having converted other substances into gold, should next declare, how communities were thenceforth to be affected by its passage from hand to hand, at home, and by its voyages back and forth, across mighty oceans, from continent to continent. The advance of society and the progress of civilization have gradually worked a change in the laws which govern the commercial intercourse of individuals, communities and nations. Increase of population and of real and imaginary wants, brought about by the progress of the race in art, civilization, acquirements and luxury, have together operated to modify the laws and customs which previously regulated the exchanges of society, in the settlement of their mutual indebtedness.

Various theories have been advanced, and different schools of economists and financiers have contended for widely opposite causes, as explaining sudden and unlooked-for changes in the monetary world. Some of these theories have been elaborated into treatises of great power, ingenuity and learning ; some have been wholly ephemeral. But it has often happened, in times past, and never in the history of the world has the remark been more true than at the present moment, that there

is no harmonious sentiment among men of talent and long experience, as to the causes of such sad and desolating and heart-rending annihilation of a real or imaginary fabric of wealth as we now witness as a community, and almost as a nation.

It is not our purpose, nor will our present limits permit, a discussion of the nature, offices and mutations of money, or its representatives. It was necessary to say thus much, as a proper introduction to what we have to offer upon one branch of the general subject, inasmuch as many of the evils we suffer and of which we complain, often arise from hidden causes lying far remote in time and space from the actual results which affect our interests, favorably and unfavorably. We propose to discuss simply the causes of financial crises, revulsions and panics, with particular reference to the present confused and distracted condition of monetary affairs.

The terms employed are obvious in their ordinary signification; their meaning can only be doubtful when applied with questionable accuracy:—

CRISIS—is defined to be that point in a disease in which it takes a decisive turn; a turn or turning point, &c.

REVULSION—the turning of a disease from one part of the body to another; the act of throwing back, &c.

PANIC—a sudden and groundless alarm; sudden fear or fright.

These terms are obviously not synonyms, and in their financial application are not convertible.

A *Panic* relates to an excitement which has no sufficient cause. The results may be serious and far-spread, though without any adequate cause. A reported failure of a bank, or manufacturing corporation, or a large and well-known and extended mercantile firm, may affect the credit and even destroy the solvency of some one or more individuals connected with the supposed failed party, before the mistake can be corrected. Here is a panic, without real cause, producing serious and destructive effects.

A *Crisis* assumes that the body politic, civil, religious, commercial or financial, is not in a normal condition, and has reached that point when a decided change must take place, either of improvement or in a retrograde direction.

A *Revulsion* is used, financially, in accommodation to its exact

meaning, but not in strict accordance with its primary signification, as when applied to a diseased body or limb. As applied in matters of finance, revulsion is not the act of throwing confusion or disturbance from one part of the system to another part, previously healthy in its action, but the sudden and abrupt disarrangement of one or many of the leading financial agents or interests; thus producing a jar in the machinery of an entire community or nation; and occasionally, by sympathy, other countries, though far remote, are much shaken by the revulsion, even as the wires of a charged battery may carry the electric fluid round the globe.

Not to go beyond the present century, we have witnessed many panics, far more crises, and a few terrible revulsions. The supposed or actual failure of a bank has often induced a panic, more or less extensive, in the community, followed by "a run" on the savings banks, or upon other perfectly sound and solvent institutions. When the public mind has become informed as to the true nature and extent of the evil which caused the first alarm, the panic has ceased, and very generally without much if any evil, as a permanent result.

Financial crises are inevitable, in any extensive trading, commercial community; and they cannot be traced to any one cause, or series or combination of causes. The expiration of the charter of the United States Bank; the veto by President Jackson of the new charter; the removal of the deposits from the United States Bank to the State banks; the controversy between the President of the Union and the President of the Bank, and the subsequent winding up of the United States Bank of Pennsylvania, severally produced a crisis in monetary affairs, besides other serious and almost numberless evils, panics and revulsions.

The same may be said of important changes in our tariff regulations at home, or our commercial treaty stipulations with foreign nations, the prospect of war, the expectation of peace. There may be, and often are, panics attendant on the coming of these events; but when they arrive, there is always a crisis in commercial affairs, a turn of tide in financial matters,—sometimes favorable, sometimes the reverse.

The trade of a community was first conducted by barter,—one produced, another manufactured,—an exchange of labor

for an exchange of products. Next came money, in a rude form, which has continued, with a great variety of changes and modifications, to perform the two-fold office of the representative of all values, and at the same time the possessor of an ascertained intrinsic value.

There would be little danger of panics, or crises, or revulsions,—certainly to any alarming extent,—so long as all the business of the world should be conducted by either or both of these agents and confined to them ; but a third agent, of great importance and vast power, for good and for evil, has been introduced, viz., *the credit system*. This system enters more or less into the business of all existing civilized nations,—indeed, it may be said to be essential to trade,—and it has contributed more directly and certainly, than any other human agency, to develop and promote the wealth and prosperity of our own favored country. This system has been more extended and expanded, in our rapid and almost fabulous growth in numbers and wealth, than ever before ; and it is owing to this fact that financial panics, and crises, and revulsions have become so frequent among us during this century ; and it is undoubtedly owing to the rapidly attained and extensive commercial sway and influence which we, as a people, exert over other people and other governments, that this system has been gradually more and more inwrought into the financial policy of nations ; and, as a consequence, sometimes direct, at others more remote, our financial disturbances and embarrassments act and react abroad, so as to increase the number and often aggravate the extent of their panics and revulsions. It is sometimes asserted that a panic, which is admitted to be a groundless fear, produces a financial crisis or revulsion. This could never happen, if business affairs were transacted upon a sound and safe basis. A panic may serve to hasten a crisis, which would otherwise have been postponed for a shorter or longer time ; it may aggravate the crisis and produce a severe revulsion, which might, but for this unnecessary alarm, have been far less serious and extensive ; it may, by an indescribable sympathy, cause far distant corporations and communities to feel the jar and find their internal business arrangements disturbed, without any apparent cause at home, or any change in their ordinary routine of business.

The long-continued suspension of specie payments by the Bank of England, from 1797 until May, 1823, was not caused by a failure of the Bank, but by a panic, which so alarmed the government, that they feared to continue their discounts, and they were no less afraid to discontinue them. In one case, specie, as they supposed, would leave the country ; in the other, commerce would be destroyed. When the Privy Council authorized this suspension, it was their expectation that it would be a temporary measure, to enable the institution to outride a squall, unharmed ; but the event proved otherwise ; specie continually advanced, and it was not until after a lapse of twenty-six years, that the bank was able to resume specie payments. During this suspension, the currency of the country depreciated, so that gold commanded a premium of fourteen or fifteen per cent. In view of the condition of the bank and its debtors, at the time of suspension, the measure, though a bold one, was undoubtedly prudent, and the subsequent management highly judicious and advantageous, at once to the bank, the debtors, and the nation.

As a panic arises from groundless fear, it is obviously impossible effectually to guard against its occurrence.

A crisis may, or may not, be foreseen—may be postponed, or modified, but not often avoided, when causes arise which seem to justify the expectation of its happening ;—the same, in substance, may be said of an anticipated revulsion. It is somewhat remarkable, that though crises and revulsions have been anticipated and predicted, they have not been avoided by measures adopted by way of prevention ; but when avoided, it has been by some occurrence entirely unlooked for,—as, for example, the influx of gold from California into this country, which clearly prevented the happening of a revulsion, as severe as that which we now experience, but some years earlier, as the legitimate result of the operation of the tariff of 1846, so graphically predicted by Mr. Lawrence. It is also true, that the wisest and most experienced financiers have differed widely in opinion, as to the procuring causes of great monetary revulsions. The immediate or exciting cause has sometimes been obvious, but not one which is adequate to reveal the true explanation of the extended ruin which ensues. As, for example, the cause of the panic which preceded the present awful revulsion, was the

unlooked-for failure of the Ohio Life and Trust Company ; yet that fact furnishes no explanation of the wide-spread ruin which has followed the insolvency of that corporation. Crises and revulsions are the necessary incidents and concomitants of a credit system ; but they do not follow any known law, and cannot be subjected to any such analysis of cause and effect, as will enable the most sagacious to understand and explain their modes of operation. There is no such settled and acknowledged analogy between one revulsion and another, as will enable us to classify or systematize them. There is no recognized condition of the banks, or currency, or trade, which has existed at the happening of two or more crises, so similar as to form the basis of logical deductions for the guidance of financial pilots, like the discoveries which the progress of our coast-survey brings to light, for the guidance of the anxious and confiding mariner.

Witness, for example, the two great and illustrative revulsions of the present century—certainly in this country—viz., those of 1837 and of 1857.

Let us consider, for a moment, some facts connected with the crisis of 1837. During the three years beginning with 1834, the imports of this country exceeded the exports by the amount of \$113,000,000,—\$20,000,000 were destroyed by fire in New York in a short time in December, 1835,—\$5,000,000 in wheat were imported in the winter of 1837. Prior to May, 1837, that part of our crops which had not been consumed, had been exported, and there were but \$73,000,000 of coin in the country. Notwithstanding these astounding and alarming facts, their existence was either ignored or wholly unheeded. The preceding years of 1835 and 1836, had been years of almost unprecedented inflation, expansion and imagined prosperity—especially in England and America.

The *Edinburgh Review* for July, 1836, says: “ We are well assured that certain banks, with less than £500,000 of paid-up capital, have discounted bills and made advances to the extent of from five to six millions ; and the engagements of others have been even more incommensurate with their capital.” Mr. Poulett Thompson stated, in the House of Commons, that the number of fresh companies on the tapis, for every imaginable object, from making railways in Hindostan to burying the dead

at home, were between three and four hundred, with an aggregate projected capital of nearly £200,000,000.

In the United States, the fools and maniacs seemed to rule the day, and men of prudence were singular exceptions. Old men and young—men of experience in business, who had even amassed fortunes, and greater numbers who had earned a competence by industry, frugality, and perseverance—forgot all that they had learned, risked all that they had made, and, in their mad haste to be rich, paid enormous sums for lands which they had never seen, and water privileges which never existed, except in the imagination of some skillful draughtsman or accomplished civil engineer, who was well paid for his valuable services. Cities were bought, built, sold, and deserted. In short, speculations in lands and stocks were carried to an extent before or since unprecedented in the history of this country. Imports meantime were regularly increasing, to supply the demands of those who figured themselves rich on paper, and drew drafts on the future to obtain credits from bankers, to pay England and France for furniture and finery for the present moment:—

Year.	Imports.	Exports.	Population.
1833	\$108,118,911	\$ 90,140,433	13,820,000
1834	126,521,332	104,336,973	14,190,000
1835	149,895,742	121,693,577	14,600,000
1836	189,980,035	128,663,040	15,050,000 ¹

One would suppose that these figures, to say nothing of the madness and wildness of speculation in lands, houses, and goods, everywhere so rife, would have been like a handwriting on the wall, predicting the speedy downfall of our financial fabric; but it was not so. The nation marched fearlessly on, to the very brink of ruin; indeed, we might say, into the arms of general bankruptcy; and in the room of self-reproach and shame, one everywhere heard the cry of crimination and re-crimination—from friend of friend, customer of bank, bank of trade, community of government, government of banks, party of party. It is extremely interesting, quite instructive, and yet painful, to read the public documents of those days, containing the opinions of statesmen and financiers—Van Buren, Webster, Clay, Calhoun, Benton, Biddle, &c.—as well as the voluminous comments of the partisan, political and religious press.

¹ Bankers' Magazine, November, 1857.

Notwithstanding all the warnings and forebodings of coming retribution, and the acknowledged pressure in the money market for months, and even a year or more, preceding the terrible crash, the descent of the bolt from the cloud, when it struck the Commercial Emporium, came almost as unexpectedly as a thunder-clap in mid-day from a cloud unobserved in an apparently clear sky. "It was only a panic." A great failure for millions was only a "suspension," and that but "temporary." The men of that day, the masses, even, were deluded; they had made haste to be rich; had forsaken their farms and their merchandise, and gambled away their possessions and their expectations. What caused this wide-spread ruin? The first answer is, wild speculation and extravagance. What induced the former, and tempted to the latter? Not one cause alone, but several combined.

Hear President Van Buren, September, 1837: "The history of trade in the United States, for the last three or four years, affords the most convincing evidence that our present condition is chiefly to be attributed to over-action in all the departments of business; an over-action deriving, perhaps, its first impulses from antecedent causes, but stimulated to its destructive consequences by excessive issues of bank paper, and by other facilities for the acquisition and enlargement of credit." And again: "The investment of thirty-nine and a half millions of dollars in unproductive public lands in 1835 and 1836, whilst in the preceding year the sales amounted to only four and a half millions." And then, after referring to investments in real estate, lots, houses, cities, grain, &c.: "The rapid growth among all classes, especially in our great commercial towns, of luxurious habits, founded too often on merely fancied wealth, and detrimental alike to the industry, the resources, and the morals of our people." After speaking of the great increase of bank facilities in England, he adds: "In view of these facts, it would seem impossible for sincere inquirers after truth to resist the conviction that the causes of the revulsion in both countries have been substantially the same. * * * * In both countries we have witnessed the same redundancy of paper money and other facilities of credit; the same spirit of speculation; the same partial successes; the same difficulties and reverses; and, at length, nearly the same overwhelming catastrophe."

Listen to Mr. Webster, at Wheeling, May, 1837: "The discontinuance of the National Bank, the illegal removal of the deposits, the accumulation of public revenue in banks selected by the Executive, and for a long time subjected to no legal regulation or restraint, and finally the unauthorized and illegal treasury order, have brought us where we are. * * * * In fact, the government seems to have administered every possible provocation to the banks to induce them to extend their circulation. * * * I will not say that other causes, both at home and abroad, have not had an agency in bringing about the present derangement. I know that credits have been used beyond all former example; that it is probable the spirit of trade has been too highly excited; that the pursuit of business may have been pushed too fast and too far. All this I am ready to admit." "But our Government," he adds, "has given a free and full scope to the spirit of banking. It has aided the spirit of speculation with the public treasure; and it has done all this in the midst of loud-sounding promises of an exclusive specie medium and a professed detestation of all banking institutions."

We might add quotations from many other able writers and speakers; but these present the opinions of men of acknowledged ability, and fully authorized to speak in behalf of the two great political parties of that day. They differed widely as to the measures of the day and as to the procuring causes of the evils which they acknowledged; but whatever might have been the remote causes, they fully agreed in the proposition that the troubles then experienced were caused *directly by the stimulus of excessive credits and expanded bank facilities*;—over-trading, luxury, and extravagance were the certain precursors of downfall of prices, annihilation of imaginary fortunes, extensive failures, prostration of credit, and universal bankruptcy. The distresses and ruin of that day were undoubtedly more terrific and widespread in consequence of causes independent of over-trading, reckless banking and gambling speculations—such as the awful fire in New York, the short crop of breadstuffs in this country, &c.; but the revulsion would have happened without these events, with perhaps some mitigation of its severity. Hon. Nathan Appleton, in a letter dated October 12, 1857, says: "There was nothing in that pressure" (of 1837)

“to be compared in severity to the present. It was wholly owing to the unprincipled action of Mr. Biddle. The pressure of 1837 was wholly unlike the present. During a period of great over-trade, a few London houses imprudently created an American debt of fifty or sixty millions of dollars, by giving out their acceptances, to be met by other equally fictitious bills as they fell due. These houses fell into discredit, and informed their correspondents in America that the whole debt must be liquidated at once, or they must become bankrupt. This was in March, when no remittances could be made except in specie, which the banks were called on to furnish. The New York Banks went on for something over a month, when they found it impossible to continue. They then suspended, and with them the whole country. There is nothing like it now, as there is no foreign demand for specie.”

This is the opinion of one of the soundest merchants—sound in opinion and judgment as he is in fortune—of the present day, looking back upon the events of 1837. He attributes all the troubles to Mr. Biddle. The final crisis he alleges happened in a time of “*great over-trade*,” and was consummated by the relations existing between the London bankers and their unwisely extended American debtors. Like Mr. Van Buren and Mr. Webster, he attributes the evils to an expanded currency, though each has his own way of arriving at his conclusion.

Our commercial interests remained in an unsettled and unsatisfactory condition from 1837 until 1842. Partial resummptions were followed by partial re-suspensions; and it was not until the passage of the tariff of 1842, that we settled down into a condition of comparative tranquillity and commercial prosperity. Many of the friends of the industrial interests of the country, to say nothing of political croakers, prophesied evil results as sure to follow from the passage of the tariff of 1846. The woollen interest certainly has languished, and the iron interest has been any thing but prosperous. It is not true, however, that the evils which were predicted have occurred, and it is mainly, if not entirely owing to the unlooked-for influx of gold from California, that they have been obviated. It was believed by many, who have felt that the woollen and other manufacturing interests were not only unprotected, but actually oppressed, by the wool duty, that the tariff of 1857

would give a new impetus, in relation to manufacturing interests, by the virtual removal of the tax on raw materials. Time has not allowed the truth of these anticipations to be fairly tested, before the great revulsion of 1857 has overtaken us, and this after a season of comparative prosperity, which we have enjoyed, with only the exceptions noted, for the past fifteen years. We come now to speak of the nature, causes, and remedy, of the present terrific financial revulsion.

There are some features of marked resemblance of the present revulsion to that of 1837. It is the opinion of a writer in the last number of the *Bankers' Magazine*, that the causes which brought about the crisis of 1836-7, have again prevailed to a larger extent in 1856-7, such as "over-trading, undue bank expansion, long credits, excessive importations from Europe, speculations in public lands." These undoubtedly were the most direct and fruitful causes of the financial troubles in 1837—not all, however.

When the first alarm was given, in August of the past year, no serious apprehension was entertained of any general or severe crisis impending; and if the trading community had been in a safe condition, the failure even of the Ohio Life Insurance and Trust Company would not have produced any extensive disturbance, or startled the nerves of the most timid financiers. But this failure at once disclosed a fact which was not before understood, viz: That buyers, sellers, borrowers and lenders, were acting upon an imaginary, not a real basis;—and that the mask of concealment was to be torn off, and we were to look upon each other, and upon property, as persons and property really exist, and not as we had fancied them to be.

The revulsion of the past year does indeed resemble that of 1837, in over-trading and over-banking; but not in our immediate indebtedness abroad, or our true condition in respect to valuable resources at home. Then, our crops were short, and we were compelled to purchase large quantities of breadstuffs. Now, our country is teeming with products, and the West, our home granary, is groaning to be relieved of the harvest burden. Then, the London bankers doing business with this country, were hopelessly insolvent. Now, those occupying a similar position in London can secure the Bank of England to its entire satisfaction for a large loan to carry them successfully

and certainly through this crisis. Then, the loans in the State banks, stimulated by the removal of the public deposits from the United States Bank, had increased in five States, during one year, with such rapidity, that they had reached to the sum of \$135,384,000—this was in January, 1835; and in January, 1836, \$177,794,000; and in January, 1837, \$193,519,000. This was the highest point of expansion, and it was at this moment that foreign exchange was almost unmanageable, from the exorbitant prices that it commanded. Now, there has been no such extraordinary stimulus exerted upon the State banks, and the rates of exchange are moderate and generally quite easy.

We subjoin a table, for which we are indebted to the *Bankers' Magazine*, showing a comparative statement of the banks of Massachusetts and New York separately, and of twenty-eight States collectively, for 1837 and 1857, giving the amount of specie, circulation and capital at each period, as follows:—

1857.			
States.	Specie.	Circulation.	Capital.
Massachusetts, . . .	\$4,518,000	\$25,000,000	\$59,760,000
New York, ...	15,000,000	28,600,000	101,000,000
28 States, ¹	63,206,000	176,750,000	373,960,000
1837.			
Massachusetts, . . .	\$1,136,000	\$9,430,000	\$30,410,000
New York, ...	6,224,000	21,127,000	31,281,000
28 States, ¹	33,169,000	126,856,000	218,075,000
Bank United States,	7,650,000	15,444,000	35,000,000

By this table we learn that the amount of specie in the banks at this time, is \$63,000,000, against \$41,000,000 in 1837—in addition to the balance in the national treasury of \$6,000,000; showing, in the aggregate, nearly double the amount of specie now, inasmuch as in 1837 the Government deposits were included in the returns; and it is fair, also, to presume that the specie in the country not in bank, is at least two-fold what it was in 1837.

Thus it appears that while our nation is financially in a much stronger condition, in every respect, than it was in 1837, we are nevertheless overtaken by a fearful revulsion, which, notwithstanding the solid wealth of the country, the abundant

¹ Wisconsin omitted in 1837; Florida omitted in 1857.

crops, and the easy condition of our foreign exchanges, has, by a sudden and appalling blow, levelled our mercantile community, and mingled the rash and the prudent, the considerate and the unduly extended, in one indiscriminate ruin.

Are we asked what is the nature of this revulsion? We answer: It is not a simple panic, caused by the failure of the Ohio Company—not any sudden change in the banking system, nor in the national tariff—not the result of any plague, pestilence, fire, or famine; but it is the legitimate consequence of the *credit system* as applied to our institutions—not alone, though chiefly, in our mode of banking—not alone in overtrading—not alone in the rapidly increased luxuries and extravagances of our community, indulged in by men and women, young and old, those of wealth, and those who have ambition for display, without the means to gratify it prudently or even lawfully; but these and other evils are necessary incidents of our credit system, as at present conducted. In comparing our present condition with the state of things in 1837, we observe that the result of that revulsion was a supposed bankruptcy to the amount of four hundred millions of property, which was wiped off by a general bankrupt act. What the present loss will be, it is impossible to say; but thus far it has affected chiefly and most severely the manufacturing and the railroad interests; it has reached corporations and individuals who counted their assets, a few months since, by hundreds of thousands, and even by millions. The year 1857 will be noted in our national history as distinguished for the extraordinary depreciation of property. What changes must result in the condition of estates in consequence of *manufacturing shares* which cost one thousand dollars, and brought a large premium even on this for a series of years, selling for the amount of an annual or semi-annual dividend! So of *railroads*, whose capital stocks amount to \$181,000,000, to say nothing of bonds and floating debt, not included in this statement—these roads all insolvent, or unable to meet their engagements, and asking extensions. In short, this revulsion may be defined to be the dissolving of imaginary wealth, and the immense shrinkage in nominal value of all or nearly all that can yet be called wealth. The only exception seems to be real estate and State and City securities.

We are next to inquire into the *causes* of the ruin which we witness. The answer to this is partly anticipated in the explanation already given. If the origin of this revulsion is in a diseased condition of the *credit system*, what is the cause of such disarrangement? Is the system radically defective, and incapable of being brought into a healthy and normal condition; or are we to look elsewhere for the cause of our terrible ills, and of the annihilation of the fabrics of imagined wealth? Is there any mismanagement in the credit system, as applied to banks, or merchandise, which can be corrected, and thus any future recurrence of the evil avoided? This inquiry more properly belongs to the last branch of our subject, viz., the *remedy*.

We reply, then, credit is the air we breathe, as a community. As an agent in the hands of Providence, it has made us what we are. It has developed our resources, which else might have lain dormant till now; it has given courage to youth; nerved the arm of honest industry and enterprise; brought down mountains and raised valleys; converted natural agents into willing mechanics, to minister to our wants, to clothe our bodies, to print our books, to transport us across land and water, to carry intelligence with lightning-speed from one extreme of the land to another, and from continent to continent. It has enabled us to develop the resources which lie concealed in the bowels of the earth, and thus to exhume the gold as well as the iron and the coal which are to aid in sustaining still increased and enlarged operations based on credit.

Without credit we should not have been what we are, without it we cannot exist as we are, and without this we cannot advance as a nation beyond our present position, for centuries to come.

It is useless to decry credit. There is not gold enough in the world to do the business of this country alone, if it were practicable to place it all at our disposal; and if it were here, instead of being a blessing, it would be our greatest curse, as it would render us indolent, effeminate and imbecile. All ambition to excel in art, literature, mechanics, and commerce, would die out, and we should settle down into national idiocy.

It is only in particular applications of credit, that great exception is taken to its use. Theorists there are, who would

recommend the almost total annihilation of credit as applied to business purposes ; but such visionaries are not common, and have no influence in forming public sentiment. There are those who admit the principle, but are very limited and narrow in their ideas of the application ; while the vast majority of the community, certainly in their practice, tend to the opposite extreme, and abuse the whole system so unwarrantably, as to make it sometimes a difficult, as well as an unwelcome task, to defend its proper use.

There never was a time in the history of this country, when this system, as applied to banks, was so perverted and abused as by Biddle in a portion of his management of the United States Bank, and equally by the pet banks, for the period that intervened from the time they received the deposits, until the crash in May, 1837.

So in reference to the building and running of railroads, and the conducting and financing of manufacturing corporations ; there never has been a time of such egregious blunders and heart-sickening and stupendous frauds, as we have had brought to our notice of late.

But abuse is no argument against proper use, any more than counterfeit disproves the existence of real coin ; on the contrary, without coin there can be no counterfeit. So, without the benefits of healthy credit being apparent, there would be no temptation to risk soul and body to secure the benefits which are sought for in its perversion and abuse. The cause, in both revulsions, is the abuse of the credit system. This leads us to inquire more carefully into the particular kind of abuse, from which we now suffer.

Mr. Appleton says : "There was no decided over-trade ; there was no speculation except by a few houses, in sugar ; there was, no doubt, an excess of imports, but no greater than for several years ; and the effect of these was wholly cured on the fifth of September, by the rate of exchange on London."

What, then, is the cause ? Undoubtedly, in his judgment, the mismanagement of the New York banks. But with all deference to his sagacity and experience, is this, we would ask, a satisfactory solution of the difficulty ? Is the whole civilized world so subordinated to New York, that fortunes come and go at her bidding ? Suppose, for argument's sake, we admit that

the contraction in the line of discount, so great and so rapid, was the procuring cause of the failures there, and here, and elsewhere. Is it true, that not only all the banks, and all the manufacturing corporations, and all the railroads which are in debt, and all the commerce of this country, can be paralyzed and rendered nearly or quite bankrupt, because there is no concerted movement, or very unwise action, on the part of New York bank directors? But more than this; must foreign houses fail; must the Bank of England be compelled, for the first time in its history, to put its rate of interest at 10 per cent, and even then only escape a suspension of specie payments by extending its circulation £2,000,000, and we know not how much further, beyond the limits prescribed by existing statute? Must the Bank of France also be compelled to raise its rate; and Vienna experience a financial revulsion; and Lisbon raise its bank rate; and Russia begin to shake? Is Mr. Appleton right in his opinion, that by adding a few millions to their line of discount, the New York banks could have prevented this series of revulsions. We admit there might have been a temporary relief, a short postponement of the evil; but the trouble existed then, as truly as now. The development of the results of pre-existing causes might have been, probably was, hastened by the mode of management on the part of the directors of the New York banks. But what was the true cause, we ask? Where lay the root of the evil? To this simple inquiry every man of intelligence gives an answer peculiar to himself, or so general and comprehensive as to be of no practical benefit. Our general reply is, the evil is to be found in human imperfection, or the perversion of that which is meant for our good, and adapted to our prosperity, and thus far eventually overruled for our growth and happiness as a people; the perversion of it, sometimes by cupidity and ambition—undue grasping—pride of excelling others in amount of business—eagerness to be rich, and alas! must we add, and not in solitary cases either, by fraud, embezzlement and cheating. The New York banks, in November, 1856, had a capital of \$55,969,743; loan, \$105,536,476; specie, \$12,110,834; circulation, \$8,610,256; deposits, \$88,524,264. In October, 1857, same banks—capital, \$64,474,000; loan, \$101,917,569; specie, \$11,476,294; circulation, \$7,523,599; deposits, \$63,301,681.

On December 1, 1856, the Boston banks had a capital of \$31,960,000; loan, \$51,054,304; specie, \$2,791,000; circulation, \$7,389,354; deposits, \$15,469,088. The same banks, on October 10, 1857, had \$31,960,000 capital; loan, \$48,913,064; specie, \$2,641,492; circulation, \$6,355,202; deposits, \$13,439,880. We have taken the condition of the banks in New York and Boston a year since, and compared it with their condition on the 10th of October, which was within three days of the time of their suspension, in order that we may form a comparative judgment of their condition as regards each other and their respective communities. It appears that the New York *loan* was only \$3,500,000 less this fall than it was a year since; *specie* not \$700,000 less; *circulation* \$1,000,000 less; and the Boston *loan* \$2,000,000 less, *specie* \$150,000 less, *circulation* \$1,000,000 less; *deposits* \$2,000,000 less in Boston, and \$25,000,000 less in the New York banks. The greatest expansion of the New York banks was in May, 1857, when their liabilities were \$108,000,000, with \$12,000,000 of specie. On 15th Aug., \$101,000,000 liabilities, with \$11,360,000 specie. Here the contraction began, and continued till October 3d, when their liabilities were reduced to \$76,000,000, with 11,400,000 specie, or \$32,000,000 reduction from the highest point. It is of this rapid contraction, that Mr. Appleton so earnestly exclaims, "Was the like ever known in the history of banking?" Probably not, and yet we cannot regard even this as the true cause of our troubles. We find the banks in Boston standing about as they did a year since, no material difference of expansion between the fall of 1856, and the time of suspension; while the *deposits* of the New York banks were very much diminished, and their bank capital increased \$9,000,000. Their loan and specie and circulation not varying in proportion enough to be worthy of notice, if disconnected from the fact of the great reduction of deposits. The inference we draw from this statement is, that the effect of the rapid contraction in New York would necessarily have been to cause trouble by sympathy in other cities, *but is not in itself sufficient to account for a tithe of what we witness.* The question is often asked: "Why did the New York banks contract so rapidly?" The answer is obvious, viz., for self-preservation. They had undoubtedly made extensive loans on call, on the pledge of bonds and railroad securities.

At any rate, their loan was not of such a character as to enable them to meet their liabilities, without a very great and rapid curtailment of accommodation to their business customers, and hence the panic commenced; and having once begun, it progressed with intensity, creating every day increased distrust and anxiety for the future, as it occasioned inconvenience and distrust for the present. But what has this sudden panic in New York revealed? While the figures in Boston remain unchanged, what do our eyes behold and our ears hear? What do the statements of failed firms and bankrupt corporations unfold as to the business which has been done of late years, and the value of the promises which have been given to banks and to capitalists, in the form of notes receivable. What have the New York banks been doing? Lending to railroads, when they should have been sustaining sound and prudent business men in their regular transactions. Why have prices ranged at such enormous rates for provisions—and speculation even in the necessities of life been so rife—but that a class of forestallers have been enabled, by means of bank facilities, which should properly be called imaginary currency, to buy up extensively, what would else have quietly found its way to market and been taken and dispensed at safe and living prices. Hence the increased circulation of our country banks, forced out unnaturally to the West, and in the first alarm of trouble in New York poured back without stint, and in the case of New England banks, coming to Boston for redemption, thus creating a specie balance against Boston which should have been met at once by the country banks themselves, but must be borne quietly by Boston for a season; certainly so far as very many banks were concerned, until their collection paper could repay their specie indebtedness.

On the whole, the cause is not in the credit system when properly conducted—nor in the banking feature of that system solely, even when abused—nor in the over-trade alone, though to a considerable extent—nor is it to be attributed to luxury and extravagance alone—nor to embezzlement only—nor to the exhausted state of our resources as a nation and our internal wealth—nor alone to any one cause—but in part to most of these, and still more to the mischievous practice of our merchants and manufacturers, in granting excessively long credits, and in un-

warrantably extending their business; also to the habit of banking upon far too small a specie basis, occasioned by the clamor of stockholders for large dividends, to enable them to keep up an extravagant and ostentatious style of living; also to the unwise and very rapid extension of railroads beyond the present wants of the country, and without means to pay for them; also to the inflated prices of articles of necessity and comfort, which this expanded state of the currency has occasioned; and finally, here in New England, to the wretched policy of confiding the whole manufacturing business to the unchecked, unscrutinized, unobserved, and sometimes irresponsible management of a few individuals; allowing mammoth corporations, with an unwieldy amount of capital, to be managed by single individuals; uniting the office of financial management with that of selling agent, and quite frequently confiding large numbers of these corporations to the management of single firms or individuals; and still further might be added, to great facilities for foreign credit, stimulated in part by a desire to encourage deserving young men, and sometimes by an ambition to outdo other foreign agencies in the amount of credit granted and profits earned. This is our Pandora's box.

Before attempting to suggest any remedy for the existing troubles, or any measures to prevent a recurrence of financial revulsions, we pause for the purpose of adverting to one fruitful cause of the disturbance of our nicely-balanced credit system. We refer to our immense foreign debt. It is estimated that British capital alone, invested in American securities, amounts to the sum of £90,000,000 sterling, or \$450,000,000; while the whole gold coinage¹ of this country, according to the American Almanac, put into circulation, from 1793 to 1856, is only \$396,895,574, the silver \$100,729,602, and the copper \$1,592,206, making a total of \$498,197,383—showing conclusively that the aggregate gold coinage of the country, if now at our disposal, would be insufficient to pay the debt we owe to England. And for what do we owe this amount? Principally for railroads, and other works of internal improvement.

¹ The President in his Message speaks of \$400,000,000 of gold from California since the mines were worked. This does not conflict with our statement as to *coinage*—as his remark relates to the yielding of the mines, large amounts of which have never reached our mints.

ese railroads are for the most part deeply in debt ; generally more is due for them than has been paid ; and it would be indeed passing strange, if this immense funded and floating debt—always in the market, more so in a panic, and from necessity, pressed upon the market, here and in England, in a time of financial revulsion—did not contribute as much as any cause, to disturb the exchanges of the country and the world, and in fact to create distrust, and rapidly to increase a want of confidence on the part of capitalists and money-lenders at home and abroad.

Probably there is no one more fruitful cause of impairing confidence between communities and individuals, and embarrassing trade, and forcing banks to stop discounts, in order that they may meet liabilities and provide funds for heavy depositors, than this same unwieldy, enormous foreign debt, the very interest of which is a heavy national tax.

We speak, however, of this as a disturbing cause of the equilibrium of credit, and not at all by way of discouragement. Our resources, humanly speaking, are unbounded—developed and developing. What millions can be fed from our Western products ! What armies can be clothed and fed and made comparatively rich by our manufacturing resources, properly managed ! We have no need to look upon the existence or cause of our revulsion with despair or even despondency, but only to learn wisdom for the future.

We turn, then, to the more welcome task of suggesting remedies. One of our most intelligent and influential merchants, when asked to give his opinion of what was best to be done in the present condition of things, said he supposed “ we should go on again, as we had done, until the *next crop of fools* came along.”

Probably this answer nearly covers the ground. All history teaches the lesson that mankind are extremely slow to profit by the lessons of the experience of others. Generations and individuals desire to try for themselves, and feel more confidence in their own sagacity and foresight, than in the counsels of those who have preceded them.

Notwithstanding this admission on our part, we deem it not entirely useless to make certain suggestions as to the future, which, if they serve no other purpose, may be as beacon-lights

to warn others of the dangers we have discovered, and of the rocks upon which we have seen fatal shipwrecks:—

1. We should not increase our foreign debt. Let us pause, if necessary, in our railroad enterprises, until we have occupied the ground already prepared for husbandry and the mechanic arts; we shall need all that we have done, and probably most of what has been projected; but we can afford to wait a while before launching new enterprises which will increase our indebtedness and impair our resources, and keep our credit system in constant exposure to crises and revulsions.

2. Business must be individualized. By this we do not mean that we are opposed to corporations, when honestly and prudently managed—far otherwise. We have always regarded corporations as democratic in their character, and in theory, at least, affording the man of limited means an opportunity of using his earnings to as much advantage proportionably as the large capitalist; but it is necessary, to the practical working of this theory, that the corporation should be intelligently, economically, and honestly conducted. If the stockholder buys or sells shares under a wrong impression of the true condition of his property, owing to false information given him by the officers of the company, he is worse off than if there were no such institutions, because he loses what he had earned, and may have to pay for the ignorance or fraud of others. But further than this, we regard the present mode of managing manufacturing corporations as eminently unwise and unsafe. *Too much power and discretion is confided to a few persons.* The financial officers of these companies should be entirely distinct from the selling agents; the books and accounts of each should be absolutely separate and regularly and carefully examined by competent men. The practice has prevailed of intrusting the business of several corporations to one firm, or even one individual. This is wrong. If this mode has some advantages in theory, it has not worked well in practice, and ought to be changed at once.

The sentiment of the business community seems to harmonize upon the point, that part, at least, of our troubles may be ascribed to the habit of giving long credits. This is so generally conceded, that we may hope the remedy will be at once and effectually applied; it seems to be too plain a case to require additional argument.

Probably too much has not been paid, in the aggregate, for doing the work of corporations; but, undoubtedly, too much has been paid to individuals for attempting to do impossibilities. If several had received what has been paid to one, the work would have been far better performed, and there would have been a more just and equal division of labor and compensation.

There has been unnecessary extravagance in warehouses, stores, and the fitting up of costly mills—splendid to behold, highly ornamental to new cities, attractive to purchasers of lots, but ruinous to poor stockholders.

3. Business must be brought within safe and proper limits. We are no ultraists. We do not advocate an exclusive specie currency. We do not contend that men in business may not owe more than the actual capital they possess; but we do contend that it is unsafe for them, for their families, and for the community, that they should be so very much extended as they have been—often owing several times the amount they are worth. In fine, a spirit of mad and reckless speculation has ruled the hour, and we see and deplore its dire effects. It has pervaded all classes of society, and nearly all varieties of occupation. In their haste to be rich, men have forgotten to be wise, and sometimes even to be honest. Gambling in stocks, selling to deliver, without a prospect or even possibility of ownership, is highly demoralizing, and ought to be prohibited by law. But there may be gambling in goods as well as in stocks; and it is entirely unwarrantable and highly prejudicial to the best interests of the community, that men should contract debts for many times the amount of their capital. Bankruptcy and ruin are almost sure to follow, and others who are innocent become involved in ruin and suffering. As a remedy, let the banks discourage over-trade and undue expansion, by withholding discounts. If they will do this, and capitalists will not be tempted, by high rates of interest and “gilt-edged paper,” to aid in stimulating over-trade and unhealthy expansion, we may anticipate a radical and very desirable reform, at once, in this particular. We look to such a reform as one of the most probable and desirable fruits of the discipline which the community is now suffering.

4. Our banking system needs reform. The tendency of the human mind is always to extremes. When a system works

well, there is a disposition to push it to its *ne plus ultra* ; when it is found to be defective, totally to condemn it. Our banking system affords a good illustration of this tendency. It is a good system—it has worked well—it has developed our resources—aided enterprise, and talent, and industry, in amassing wealth ; but it has been pushed too far—it has been sadly misused and abused—and the whole community are the sufferers. In this state of things, many are disposed to condemn the whole system ; others, to substitute a new theory of their own ; and others still, to engraft a new system on the old one. Probably there may be some advocates for another United States Bank, or a large and powerful government institution for the regulation of the exchanges ; others would prefer something resembling the plan of the Bank of England, in its feature of a separation of the issue from the loan department ; while some, probably very few, are open advocates of an affiliated, or an independent, private Sub-Treasury. We are no advocates for any of these radical changes. Communities become adapted to certain modes of doing business, and it would be an injury to them to exchange their mode for one which is better in theory, if not adapted to their particular wants.

We should deprecate any radical change of our laws in relation to banking. Improve—amend—but do not pull down or destroy. Experience has shown us the evils and the advantages of our present plan. We know not what would be the disadvantages of a change, and we cannot be sure of the benefits which are claimed for any new system, when applied to our case. Our counsel is, to amend the present law in such particulars as recent events have shown it to be defective—among which we should suggest the following :—

1. Limit the circulation of each bank at least to the amount of its capital stock paid in—and even considerably less than this, we should prefer.

2. Limit the right of discount to once and a half its capital, instead of double the amount of capital, as is now allowed.

3. Prohibit the issue of any bills under five dollars, forthwith ;¹ and under ten dollars, after January 1, 1859. A viola-

¹ Since writing the above, we have read the President's annual Message to Congress, in which he recommends the issue of bills of no smaller amount than

tion of this prohibition to work a forfeiture of the charter of a bank, *ipso facto*.

4. Allow no bank to discount, unless it has in its vaults, at the time, at least fifteen per cent of its capital in specie, exclusive of special deposits.

5. Change the State tax from *capital* to *circulation*.

6. Prohibit banks from borrowing money on interest, at any rate.

7. Allow the banks six per cent instead of five, for compulsory loans to the State.

8. Prohibit banks from loaning on railroad securities or shares of manufacturing corporations. This we would advise, partly for the purpose of discountenancing large demand loans which ought to be converted into business loans, and partly to obviate any recurrence of the unwieldy demand stock and bond loans, that have aided in increasing the panic and prepared the way for the present revulsion.

9. Regulate the system of exchange paper, so that the usury laws shall not be evaded under cover of the price of exchange.

10. We would be pleased to have the legal rate raised to seven per cent, so as to keep capital at home, instead of offering an inducement to send it to New York for investment ; another advantage would result from this change, viz., there would be less eagerness to strain every point to make one per cent additional for the stockholders.

With these changes, our banks would be as well adapted to meet the wants of the community as could be contrived if we were to begin anew and have the choice of all existing schemes of banking. Among other remedies proposed, in some quarters, is a modification of the tariff. We have no doubt that this might be essentially improved. We have always advocated incidental protection to American industry in the levying of

twenty dollars, and ultimately of fifty dollars. We deem this impracticable, if not impossible to accomplish ;—and there is an objection in the minds of many judicious financiers even to the changes which we propose, on the ground that if we exclude small bills by statute in our own State, we only offer a bounty to the neighboring States to furnish our small currency. There is some force in this objection, and experience has shown it to be the case in States which have adopted it—and the only effectual remedy would be, if such a thing were practicable, by a general law of the United States, regulating the issue of small bills. This possibly might have been done, under the powers granted by the Constitution to the General Government at the outset, but it is probable that if such a power existed at first, it has been waived so long as that the constitutionality of its exercise *now* is at least doubtful.

duties. We believe that a part of our present evils may be ascribed to the payment of large sums for imported iron and woollen fabrics, which might have been expended more wisely and profitably to feed and clothe our own people and educate their children ; but we are also opposed to frequent changes in the policy of government as to revenue and protection. It is of the first moment to our citizens, engaged in commerce and in manufactures, alike to know what they can rely upon in projecting their voyages and enterprises. Vacillation in the rates of duties is ruinous to any business, and it is of far more consequence to know with certainty what policy is to be pursued, provided it be not ultra free trade, or protection to the degree of prohibition, than what that policy shall be. For these reasons we do not advise any re-opening of the tariff question, fearing that it may be productive of more evil than good to the business community.

We have thus considered the nature, the causes, and the remedy of the sad revulsion with which the whole community is now visited, and in which we have the sympathy of the commercial and manufacturing world. It is a sad picture that we behold ; a people furnished by a kind Providence with all the means necessary to secure their happiness, with plenty of food, and the precious and the useful metals and ores in abundance beneath their feet ; in fine, with all the elements of prosperity—and yet completely paralyzed—distrusting and distrustful—seeing their riches take to themselves wings and fly away, they hardly know why or whither—“ men’s hearts failing them for fear,” and not knowing in what to engage or from what to refrain, whom to trust and whom to refuse—the poor crying for bread and asking for labor, and the rich knowing not how long they shall have any value in the things which they possess.

God grant that we may be guided wisely in these matters, with nerve and resolution to bear the ills we cannot escape, and with prudence and calm discretion to ascertain and apply efficient and seasonable remedies to remove our present ills, and, so far as possible, to prevent their recurrence.

November 10, 1857.



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